

Message Text

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ACTION EB-11

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FM AMEMBASSY QUITO

TO SECSTATE WASHDC 0736

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E.O. 11652: N/A

TAGS: EIND, EFIN

SUBJECT: FOREIGN INVESTMENT CLIMATE

REF: STATE 53993

1. STATEMENT ON INVESTMENT CLIMATE REQUESTED REFTEL IS AS
FOLLOWS: BEGIN TEXT:

ECUADOR IS MODERATELY ATTRACTIVE FOR U.S. PRIVATE INVESTMENT.
GOVERNMENT POLICY IS TO WELCOME FOREIGN INVESTMENT ON ITS OWN
TERMS, WHICH IN SOME WAYS ARE STRICTER THAN DECISION 24 OF THE
TREATY OF CARTEGENA, GOVERNING FOREIGN INVESTMENT IN THE ANDEAN
PACT COUNTRIES. NEW LARGE SCALE INVESTMENT IS RESERVED IN
PRACTICE FOR STATE OR MIXED ENTERPRISE IN THE EXTENSIVE AREAS
OF NATURAL RESOURCES (HYDROCARBONS, MINING, FISHING), PUBLIC
UTILITIES, AND CERTAIN BASIC INDUSTRIES (STEEL, CEMENT, PETRO-
CHEMICALS). THE STRICTNESS OF GOVERNMENT TERMS VARIES ACCORDING
TO THE PERCEIVED NEED FOR ADDITIONAL FOREIGN INVESTMENT. IN
THE AREA OF HYDROCARBONS, WHERE THE BULK OF PRESENT FOREIGN
INVESTMENT IS CONCENTRATED, MODEL CONTRACTS ARE TOUGH ENOUGH TO
DISCOURAGE MOST INTERESTED INVESTORS. ON THE OTHER HAND, THE
GOVERNMENT APPEARS WILLING TO BE ACCOMMODATING IN THE GROWING
FISHERIES INDUSTRY. SINCE THE LARGE ATTRACTIVE INVESTMENT
OPPORTUNITIES TEND TO LIE IN THESE AREAS, DECISION 24 HAS BEEN
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A MINOR FACTOR IN INVESTMENT DECISIONS THUS FAR.

ECUADOREAN LAW RAISES FEW BARRIERS AND OFFERS NO SPECIAL INCENTIVES TO FOREIGN INVESTMENT. REGARDING SECTORS NOT RESERVED FOR STATE OR MIXED ENTERPRISE, THE GOVERNMENT HAS ACTED TO INCREASE INCENTIVES AVAILABLE TO DOMESTIC AND FOREIGN INVESTORS ALIKE. THE CUSTOMS TARIFF THAT TOOK EFFECT IN APRIL 1974 REDUCED DUTIES SHARPLY ON RAW MATERIALS AND CAPITAL GOODS; ACCORDING TO THE GOVERNMENT, THE NEW SCHEDULE MARKED THE TRANSITION FROM A REVENUE TARIFF TO A PROTECTIVE TARIFF. SOME TAX RELIEF IS AVAILABLE FOR INVESTMENT IN CERTAIN INDUSTRIES AND IN LESS DEVELOPED REGIONS. MANY U.S. FIRMS CARRY OPIC'S RISK INSURANCE; HOWEVER, ECUADOR HAS NOT APPROVED NEW APPLICATIONS FOR OPIC INSURANCE FOR SEVERAL YEARS.

ECONOMIC CONDITIONS ARE MORE FAVORABLE TO INVESTMENT NOW THAN AT ANY TIME IN ECUADOREAN HISTORY. AS A RESULT OF NEW PETROLEUM WEALTH, FOREIGN EXCHANGE IS ABUNDANT, THE CURRENCY SOLID, AND THE CHIEF BARRIERS TO GROWTH HAVE BECOME THE DIFFICULTY OF OBTAINING RAW MATERIALS AND A SCARCITY OF HUMAN AND PHYSICAL CAPITAL IN THE COUNTRY. THE MODERN MANUFACTURING SECTOR IS STILL RELATIVELY SMALL, AND THE RAPID GROWTH OF RECENT YEARS IS GENERATING MANY NEW INVESTMENT OPPORTUNITIES. WAGES HAVE BEEN LOW AND U.S. FIRMS GENERALLY ENJOY GOOD LABOR RELATIONS. IN RESPONSE TO UNACCUSTOMED INFLATION, HOWEVER, THE GOVERNMENT MAY DECIDE TO ENCOURAGE WAGES TO RISE. END TEXT.

2. INVESTMENT STATISTICS: REGARDING U.S. DIRECT INVESTMENT AND DIRECT INVESTMENT IN U.S. BY FOREIGNERS, DEPARTMENT OF COMMERCE DATA DEVELOPED FOR THE SURVEY OF CURRENT BUSINESS ARE THE MOST ACCURATE AVAILABLE. DIRECT INVESTMENT IN ECUADOR BY ALL COUNTRIES TOTALED \$400 MILLION AT THE END OF 1972 (EMBASSY ESTIMATE). TOP THREE INVESTING COUNTRIES, APART FROM U.S., WERE UK \$40 MILLION, SWITZERLAND \$5 MILLION, AND SPAIN \$4 MILLION.
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